



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, September 30, 2016
8:30 a.m.

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:30 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair
Professor Dennis Hoffman
Mr. Lorenzo Romero
Dr. Richard Jacob
Mr. Tom Connelly (via teleconference)

Absent: Mr. Jeff Tyne, Vice Chair
Mr. Tom Manos

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the August 26, 2016, Public Meeting and Executive Sessions of the ASRS Board

Motion: Prof. Dennis Hoffman moved to approve the Minutes of the August 26, 2016, Public Meeting and Executive Session of the ASRS Board. Dr. Richard Jacob seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

3. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Lorena Tarazon's Appeal Regarding a Long Term Disability Benefit Overpayment

Mr. Rex Nowlan, Assistant Attorney General, Attorney General's Office, was present to provide legal advice to the Board, if requested.

Ms. Mirna Tarazon spoke on behalf of her mother, Mrs. Lorena Tarazon, who is Spanish speaking only, both of whom attended the meeting via teleconference. Ms. Mirna Tarazon requested the Board remove the requirement for Mrs. Lorena Tarazon to repay the overpayment of Long Term Disability (LTD) benefits to the ASRS in the amount of \$10,660.04. Ms. Tarazon explained that her parents' only source of income is from her father's Social Security benefit and they do not have the means to repay the overpayment.

Ms. Jothi Beljan, Assistant Attorney General, reviewed the facts of the case with the Board as documented in her memo presented in the Board book. Ms. Beljan summarized the LTD process with regard to the six-month waiting period and the requirement to pay premiums in order to receive benefits. In addition, Ms. Beljan responded to questions from the Board regarding the collection process for the repayment of the LTD benefit overpayment.

Motion: Prof. Dennis Hoffman moved to accept the Administrative Law Judge Decision. Dr. Richard Jacob seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

4. Presentation Regarding Government Finance Officers Association (GFOA) Financial Reporting Awards

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, announced the ASRS has been recognized by the GFOA for the 27th consecutive year as the recipient of the Comprehensive Annual Financial Report (CAFR) award. A Certificate of Achievement is presented by the GFOA to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

In addition, the ASRS received the GFOA Award for Outstanding Achievement for the 2015 Popular Annual Financial Report (PAFR).

The following staff were recognized for having a substantial part in the ASRS receiving the CAFR and PAFR awards: Nancy Bennett, Erin Higbee, John Maczko, Hong Mayhew, Debbie Motta, Lupita Breland, Kerry White and Michael Copeland.

Mr. Guarino presented the 2015 awards to Ms. Nancy Bennett, Chief Financial Officer and Ms. Erin Higbee, Controller. Ms. Bennett took a moment to commend the staff involved during this pressure filled time, for continuing to maintain a professional demeanor and sense of humor, while producing a quality and accurate book every year.

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Proposed Legislation for the 2017 Legislative Session

Mr. Patrick Klein introduced the topic by stating that during the summer of this year the External Affairs Division received legislative suggestions from ASRS staff, third party administrators, and Trustees concerning federal statutory requirements, plan inefficiencies/inconsistencies/inequities, administrative concerns, and others. Staff first presented the legislative package at the September 14, 2016, External Affairs Committee (EAC) meeting. The EAC moved to recommend to the full Board approval of the legislative initiatives at its September 30, 2016, meeting. Mr. Klein stated an additional legislative item was added that has not been moved through the EAC as it was just

recently brought forth. This item has been discussed with the EAC Chairman prior to being brought to the Board today. Mr. Klein turned the discussion over to Mr. Nick Ponder, Government Relations Officer, who reviewed each of the seven ASRS legislative initiatives.

A.R.S. § 38-766.02: Retired members; return to work; employer contribution payments; definitions – The current language creates an opportunity for a loophole if employers choose to lease specific classes of employees. There is nothing in statute identifying “class” of employees; however, historically the ASRS has not charged an ACR in circumstances where a class (i.e. cafeteria workers, janitorial staff, bus drivers) were leased or contracted. It is the position of the ASRS that substitute teachers are teachers. As a result, a substitute teacher is filling the role of a teacher, and thus, a retired substitute teacher is filling a position “ordinarily filled by an employee of an employer” and the employer would owe an ACR. The ASRS would like to propose adding, “...returns to work with an ASRS employer...” and striking, “in a position ordinarily filled by an employee of the employer.”

A.R.S. § 38-738(A) & (B): Adjustment and refund - This was SB1144 from the 2016 Legislative Session. Although this bill passed in all committees, it failed the 3rd read in the House for political reasons. Because there was no ideological opposition to the bill, the ASRS would like to pursue it again this year. The proposed language provides clarity to the Internal Revenue Code with regard to how the ASRS would process not only employer credits, but contributions not withheld and requests for contributions not withheld on forfeited membership from members returning to work for an ASRS employer.

A.R.S. § 38-742(B): Reinstatement – This was SB1038 from the 2016 Legislative Session. Although this bill passed in all committees, it failed to pass the 3rd read in the House for the same reasons as above. The ASRS proposal is to clarify any potential confusion in the ASRS reinstatement statute regarding the purchase of forfeited service. Currently, the statute indicates that a member must repay what was received in a refund, plus interest, in order to receive service credit for that period. However, there is potential for confusion in that under a DRO, an ex-spouse may receive a portion of the member’s benefit that was assigned to the ex-spouse. One could argue that the statute only suggests the member repay what the member had received and not the total amount paid.

A.R.S. § 38-760(B)(3): Optional forms of retirement benefits – The ASRS’ proposal is to incorporate into statute the authority of the ASRS to deny a Partial Lump Sum (PLS) rollover in the event the member has an overpayment or estimated overpayment.

According to the ASRS Tax Attorney, federal law precludes the ASRS from withholding all or a portion of the PLS in order for the ASRS to collect the owed portion of the overpayment. The proposal would deny a PLS rollover distribution to a retiree who has an overpayment or estimated overpayment.

A.R.S. § 38-751: Nonparticipatory employer liability allocation; definitions - The ASRS is currently reviewing the statute to provide proposed language to clarify permutations of a nonparticipatory employer not previously contemplated at the time the statute was drafted. Proposed language will be drafted within the month and reviewed by legislative counsel regarding the following:

- Further define what “no longer participating” means as stated in A. 3.
- Shifting from charging a lump sum liability to an ongoing payment method by calculating the nonparticipating employer’s liability and segregating their assets and liability.

A.R.S. § 38-714: Powers and duties of ASRS and board – In the 2016 Legislative Session the ASRS pursued legislation to allow the Board to establish an Appeals Committee for the purpose of hearing appeals. The statute enabling the establishment of an Appeals Committee permits the established committee to hear appeals under Article 2, Title 38, Chapter 5; however, it does not include the LTD statutes in Article 2.1 or transfers in Article 7. The ASRS is proposing to add clarifying language which would provide the Appeals Committee the authority to hear and make determinations on all appeals.

A.R.S. § 38-711(7): Definitions - Mr. Ponder stated the Board's approval of this proposal is contingent upon the Arizona Supreme Court ruling of the ASRS' request for review. If the Arizona Supreme Court grants the request, this legislative item will be held until the court has made a final ruling. If the Arizona Supreme Court denies review and there is sufficient time to push this item through the 2017 Legislative Session, the ASRS is seeking Board authorization to do so. The ASRS intends to clarify the definition of "compensation" for the purpose of calculating an individual's retirement benefits. Also, to clarify that employer remitted contributions toward an alternative retirement account for the purposes of employment negotiations are not to be included in retirement calculations.

Motion: Prof. Dennis Hoffman moved to approve the first six 2017 ASRS legislative initiatives for immediate action, and item seven concurrent with an outcome from the Arizona Supreme Court. Dr. Richard Jacob seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

6. Presentation, Discussion, and Appropriate Action Regarding the Appointment and Management of the ASRS Appeals Committee

Mr. Paul Matson, Director, provided a brief summary and introduction for this topic. With the recent legislative authority to establish an Appeals Committee to act with the authority of the Board, the Board now has the opportunity to consider taking action to create the Appeals Committee. Mr. Matson stated that the Appeals Committee will not be able to hear LTD appeals at this time but can hear and act on all other appeals.

Motion: Prof. Dennis Hoffman moved to: a) Approve the creation of the ASRS Board Appeals Committee, b) Delegate the responsibilities in A.R.S. § 38-714(E)(1) to the Appeals Committee, and c) Grant ongoing authority to the Board Chair to appoint members to the Appeals Committee, replace members of the Appeals Committee, determine the Officers of the Appeals Committee, and determine the size of the Appeals Committee as outline in the Board Governance Policy Handbook. Mr. Lorenzo Romero seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

Mr. Kevin McCarthy noted, for the record, he is appointing the following members to a three member Appeals Committee:

- Dr. Richard Jacob as Chairperson
- Mr. Jeff Tyne as Vice-Chairperson
- Mr. Tom Manos as Member

7. Presentation, Discussion, and Appropriate Action Regarding Staff Recommended Updates to the ASRS Board Governance Policy Handbook

Mr. Matson provided the Board a brief summary of the history of the Board Governance Policy Handbook which has been in place since January, 2004. The handbook initially served the purpose of documenting the duties of the Board versus staff, then evolved into a discussion document regarding what is optimal governance and continues to be modified as necessary based on recommendations from the Board and staff. Mr. Matson highlighted the following amendments presented by staff:

- Page 20 – Newly added the Appeals Committee Charter.
 - Mr. Matson recommended a change in the Composition paragraph to change Appeal to Appeals for consistency.
 - Mr. Matson recommended a change in Responsibilities #2, to strike “long term disability participants”. Dr. Richard Jacob also suggested amending the language in the () from plural to singular to read as follows: (A member may be an employee, retiree, inactive member, etc.).
 - Mr. Kevin McCarthy suggested adding language providing the Committee the option to refer an appeal to the entire Board.
- Page 3 – Mr. Matson’s Initial thoughts were to amend the stricken #16 language to read, “Hear non-LTD appeals in accordance with policy established by the Board”.
 - Dr. Jacob suggested, with Board agreement, to amend the language to allow the Board to hear any appeals if necessary.
- Page 15 – Plan design changes has been removed from “h”, “i” and “j”. Plan design changes are typically handled in the External Affairs Committee, not the Operations and Audit Committee.
- Page 2 – Added to the “Board’s Role”, second paragraph, third sentence should now read in part, “...investment managers, the Real Estate and Private Equity Consultants, and other Asset Class Consultants to the...”

Mr. Matson noted that all other changes documented in the Board Governance Policy Handbook were technical in nature and deferred to the Board regarding whether they were prepared to make a motion to accept all changes or consider only the primary changes deemed necessary as discussed.

Motion: Dr. Richard Jacob moved to accept the revisions to the Board Governance Policy Handbook as presented and as altered by consensus during discussion at today’s meeting. Prof. Dennis Hoffman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

8. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Paul Matson stated he had nothing further to add regarding the Director’s Report but would answer any questions the Board may have regarding the report.

Mr. Karl Polen, Chief Investment Officer, responded to the Board’s question regarding an update on the fiscal year-to-date investment returns.

9. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. Operations and Audit Committee (OAC)

Mr. Kevin McCarthy announced the next OAC meeting will be held October 11, 2016, at 10:30 a.m. in the 14th floor conference room.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on October 14, 2016, at 10:30 a.m. in the 14th floor conference room and will focus on the legislative initiatives and the rule making agenda.

c. Investment Committee (IC)

Mr. Tom Connelly announced the next IC meeting will be held on October 24, 2016, at 2:30 p.m. in the 14th floor conference room to discuss house views, portfolio performance, oversight, overview and update of IMD activities and working group reports.

Mr. Anthony Guarino announced an update regarding the upcoming OAC meeting. The next OAC meeting will be held December 13, 2016.

10. Presentation, Discussion, and Appropriate Action Regarding *ASU v. ASRS* Appeal Litigation and Rulemaking Exemption Legislation

Motion: Dr. Richard Jacob moved to go into executive session for the purpose of discussion and consultation for legal advice with the attorney of the public law. Mr. Lorenzo Romero seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

Prof. Dennis Hoffman recused himself due to his employment with ASU and did not attend the executive session.

The Board convened to Executive Session at 9:28 a.m.

The Board reconvened to Public Session at 9:53 a.m.

11. Board Requests for Agenda Items

No requests were made.

12. Call to the Public

No one from the public requested to speak at this time.

13. The next regular ASRS Board meeting is scheduled for Friday, October 28, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

14. Adjournment of the ASRS Board

Motion: Dr. Richard Jacob moved to adjourn the September 30, 2016, Board Meeting at 9:54 a.m. Mr. Lorenzo Romero seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 2 excused, and 2 vacancies, the motion was approved.

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Signed Copy on File

Melanie A. Alexander
Board Administrator

Signed Copy on File

Paul Matson
Director